

**Issuer:** Sunningdale Tech Ltd.

**Security:** Sunningdale Tech Ltd.

**Meeting details:**

Date: 11 April 2018

Time: 10.00 a.m.

Venue: Raffles City Convention Centre, Level 4, Moor & Moorison Room, 2 Stamford Road, Singapore 178882

**Company Description**

Sunningdale Tech Ltd. manufactures and sells dies, tools, jigs, fixtures, high precision steel moulds, and plastic products. The company operates through four segments: Automotive, Healthcare, Consumer/IT, and Mould Fabrication. The Automotive segment produces faceplates for automotive audio systems and climate controls, speedometers/clusters, steering switches, exterior antenna covers, etc. The Healthcare segment produces scoops, caps, and drug delivery and diagnostic devices. The Consumer/IT segment produces IT, consumer, and telecommunication products, including point-of-sale terminals, water filtration products, grooming products, inkjet cartridges, etc. The Mould Fabrication segment designs and manufactures moulds that are used in the manufacture of plastic injection parts. The company is also involved in the trading of car audio equipment; manufacture of plastic products in video front panels, office automation products, and subassembly of paper feeders for printers and computer components; contract manufacturing of assembled plastic products; and manufacture and sale of precision engineering components, as well as painted and laser etched plastic parts. In addition, it provides technical consulting services. The company offers its products to national corporations and original equipment manufacturers in Singapore, Malaysia, the People's Republic of China, the Americas, Europe, and internationally. Sunningdale Tech Ltd was incorporated in 1995 and is headquartered in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=BHQ](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BHQ))

1. In the Chairman's Message, it was disclosed that the group's 20th manufacturing facility in Penang, Malaysia has been completed. Production will be ramped up at the new 15,000 square metre plant by the second half of 2018 as orders from key customers are received.

On the back of strengthening demand and a diversification of product mix, the group achieved record high revenue of \$724.5 million in FY2017.

- (i) **What is the average utilisation of the group's manufacturing facilities? How much more growth can the group's 20 manufacturing facilities support?**
- (ii) **Can management help shareholders better understand the opportunities of Industry 4.0? What are some of the examples where the group has successfully moved up the value chain?**
- (iii) **Can the board also elaborate further on the impact on the group of any potential trade wars, especially in the automotive segment?**

2. The group was affected by the foreign exchange movement in FY2017. In the Chairman's Message, it was disclosed that:

*"Foreign exchange volatility was our biggest headwind in 2017 as we were affected by the fluctuations of key currencies such as the US Dollar, Chinese Renminbi and Malaysian Ringgit. To mitigate this impact, we try to achieve a natural hedge in our operations. Additionally, we ensure that the terms and conditions of new project deals include foreign exchange fluctuation and raw material cost clauses. This allows us to renegotiate project terms during times of volatility in order to mitigate downside exposure. However there is usually a lag due to the negotiation period."*

In FY2016, foreign exchange gain of \$9.0 million was recognised but a foreign exchange loss of \$10.6 million was recorded in FY2017 and recognised under "Other expenses".

- (i) **As these are not foreign exchange translation gains/losses, can management explain in greater detail how these foreign exchange gains/losses arose?**
- (ii) **What is the level of natural hedging in the group's operations?**

In Note 32(b) (page 116 – Foreign currency risk), the group has stated that, in addition to natural hedging, the group had also entered into forward currency contracts during the year.

- (iii) **What is the extent of (active) hedging to mitigate the group's foreign currency risks?**
- (iv) **Is the Audit and risk committee overseeing of the group's hedging strategy and execution?**

In addition, the sensitivity analysis of foreign currency risk of the group's profit before tax is shown on page 116 and is reproduced below:

Sensitivity analysis of foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD and EUR exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

	Group	
	2017 Profit before tax \$'000	2016 Profit before tax \$'000
USD/SGD - strengthened 2% (2016: 2%)	624	1,378
- weakened 2% (2016: 2%)	(624)	(1,378)
USD/RMB - strengthened 2% (2016: 2%)	678	580
- weakened 2% (2016: 2%)	(678)	(580)
EUR/SGD - strengthened 2% (2016: 2%)	238	228
- weakened 2% (2016: 2%)	(238)	(228)

(Source: Company annual report)

- (v) **Given that the sensitivity analysis shows ranges of between \$228,000 and \$1,378,000, can the audit committee help shareholders understand why the foreign exchange gains/losses in the last two years were nearly an order of magnitude larger at \$9.0 million and \$10.6 million?**

3. Mrs Eileen Tay-Tan Bee Kiew was appointed as an independent director of the company on 1 June 2017. Mrs Eileen Tay-Tan Bee Kiew, who retires under Regulation 97 of the Company's Constitution, will be seeking re-election at the Annual General Meeting.

In the Corporate Governance Report (page 30), the company has disclosed the following:

*The NC had identified Mrs Eileen Tay-Tan Bee Kiew based on her skills, judgement and diversity of experience. Eileen Tay-Tan Bee Kiew was formerly a partner of KPMG LLP and had been appointed director of several private and public listed companies in Singapore and Australia. She was the CFO of Sunningdale Tech Ltd (February 2007 to March 2008) and its Advisor from April 2008 to March 2017. She has extensive experience in the area of accounting, finance, taxation, public listing, business valuation, due diligence, mergers and acquisition and business advisory.*

Guideline 2.3 of the 2012 Code of Corporate Governance states that an "independent" director is one who has no relationship with the company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the company.

- (i) **Given Mrs Eileen Tay-Tan Bee Kiew has a decade-long association with the company both as CFO and as advisor, would the nominating committee elaborate further on the deliberations it has had that led it to consider Mrs Eileen Tay-Tan Bee Kiew as independent?**
- (ii) **If re-elected as an independent director, would Mrs Eileen Tay-Tan Bee Kiew be frequently put in a position where there are risks of self-review given that she has been the advisor to the group since April 2008?**